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Wine

Turkey's Taste for Wine is Growing 2005

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Report Highlights:

The market for wine is expanding in Turkey as more varieties and better quality wines become available. Changes in Turkish wine import and marketing regulations have also fueled the growth of imported wines. High import duties and consumption taxes will pose a challenge to increased sales in the short run. However, Turkey is scheduled to begin discussions on EU membership in October 2005 and could possibly adopt EU external tariffs, which would encourage imports.

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Executive Summary

The market for wine is expanding in Turkey as more varieties and better quality wines become available. Changes in Turkish wine import and marketing regulations have also fueled the growth for imported wines. Imported wines can now be sold in retail outlets where previously sales were limited to luxury hotels and restaurants. High import duties and consumption taxes will pose a challenge to increased sales in the short run. However, Turkey is scheduled to begin discussions on EU membership in October 2005 and could adopt external EU tariffs, which would encourage sales.

Production

Turkish wine production was approximately 60,000 million liters in 2004. In addition, 12 million liters of "unregistered wine" was also produced. In response to increased demand, however, producers are modernizing facilities and expanding grape production (currently 3.5 million tons). There are approximately 80 wineries in Turkey of which the 10 largest account for 80 percent of domestic production. Kavaklıdere, Doluca, May, Yazgan, Turasan, Sevilen and Pamukkale are the leading producers. While most produce wines using local grape varieties, some are producing Cabernet, Merlot and Chardonnay. These new varieties constitute only about 5% of total production. With negotiations on membership in the European Union scheduled to begin this year, production is expected to increase in coming years.

Consumption

Turkey is a secular republic and is not governed by the sharia law. Wine consumption is estimated at 69 million liters (registered and unregistered) with a per capita consumption estimated at 1.0 liter. Wine consumption in Turkey has increased about 10 percent each year during the past five years while beer consumption has grown 5 percent. Per capita wine consumption is a relatively low figure but represents a fifty percent increase in consumption compared to five years ago.

Turkey is a country of over 70 million people with the majority living in the western half of the country. About 50 percent of the population is younger than 25 years old and the rate of urbanization is increasing. Wine and other alcohol consumption is higher in large cities like Istanbul, Ankara and Izmir and in economically more developed regions in Thrace, the Marmara and the Aegean.

Turkey is also one of the leading tourist destinations in the world, which is also contributing to increased interest in wine. Income derived from tourism reached \$12 billion in 2004. Turkey hosted 17.5 million tourists mostly from the European Union and Russia in 2004. By 2010, 25 million tourists are expected to visit Turkey. The major tourist areas are in the western part of the country and along the coasts. In catering to tourists, hotels and restaurants in the country offer a variety of western foods and drink, including wines. The increase in wine consumption in recent years is due to the improved economic conditions in Turkey. The economy grew by 5.9% in 2003 while growth in 2004 is estimated at over 9%. Per capita income in Turkey is approximately \$4,000. Despite sporadic economic problems, Turkey remains among the 20 largest economies of the world.

Turkey is one of the first, if not the first, Muslim countries to form a wine association. The Istanbul Wine Friends Association was formed in 1991. It has ties with other international wine groups like "The brotherhood of knights of the vine" of California. The association does about nine wine tasting events annually. The Wine Club of Ankara was established in 2000.

Turkish Tastes

In general, local tastes depend on the food that is being served, but among the imported varieties red wines are preferred. Cabernets Sauvignon and Merlot are popular along with Chardonnay and Pinot Grigio.

Trade

The Turkish retail market only recently was opened to sales of imported wines. Bulgarian, French, Spanish, Chilean, Australian and limited number of U.S. wines can now be found in supermarkets. According to official sources, Turkey imported 852,000 liters of foreign wines in 2004. Italy, France and Chile were the suppliers of imported wine. Industry contacts indicated that imports in 2004 were lower due to delays in receiving import permits.

Apparently, this was due to a lack of coordination between two government offices that issue the permits. According to the same sources, 2005 imports are expected to be two or three times higher than in 2004.

Turkish Wine Imports

Turkish Wine Imports Jan-Dec	2003 1000 Ltr	2004 1000 Ltr
U.S.A.	2	22
Others		
Italy	37	268
France	31	177
Chile	14	90
Bulgaria	0	95
Spain	0	56
Australia	0	34
Moldavia	0	43
Romania	0	30
Argentina	0	16
S. Africa	0	13
Belgium	20	0
Germany	14	0
Georgia	0	8
Total of others	116	830
Others not listed	0	0
Grand Total	118	852

Turkey exported about 4.8 million liters of wine in 2003 and 4 million liters during 2004 valued at US\$ 7.3 million and US\$ 7.9 million respectively. The great majority of the exports were destined to EU countries such as Belgium and Germany targeting the Turkish population living in Europe. Northern Cyprus, Japan and Azerbaijan are the other destinations for Turkish wines.

Turkish Wine Exports

Turkish Wine Exports (Jan-Dec)	2003 1000 Ltr	2004 1000 Ltr
U.S.A.	74	136
Others		
Belgium	1,016	1,345
Germany	1,158	971
N. Cyprus	405	727
England	304	396
France	1,420	134
Japan	60	75
Austria	20	41
Azerbaijan	19	43
Holland	39	25
Switzerland	22	30
Total of others	4,463	3,757
Others not listed	289	187
Grand Total	4,826	4,080

Import Regulations

In general, Turkish import regulations are complicated and for wine even more so. An importer must apply first to the Ministry of Agriculture for an import permit called a "Control Certificate". After that is accomplished they must receive permission to import from the Turkish Alcohol and Tobacco Board by proving that they have no criminal record and have the storage and distribution capacity for the products that they want to import. Obtaining first-time approvals can take a total of three months but once the importer is approved as an importer, obtaining control certificates only takes a couple of weeks.

The importer's name and address needs to be an original label on the back of the bottle. The Ministry of Agriculture will no longer accept bottles with stickers.

Import Duties and Taxes

Prices for imported wines are quite high. A combination of import duties, consumption taxes, and distribution costs as well as local mark-ups, result in retail wine prices being three to five times those in the United States.

Presently EU wines are subject to 50 percent import duty while non-EU wines face a 70% import duty. Additionally there is a 63.3 percent special consumption tax (SCT) for all wines as well as an 18 percent Value-Added Tax. The GOT officials have indicated that there would be a reduction in taxes for wine imports but thus far no action has been taken. To the contrary, the GOT recently introduced a new minimum fixed tax of 3.2796 New Turkish Lira (YTL) (currently \$1.34/lira) per liter for all wines, domestic and imported. According to the new taxing system, if the SCT for a bottle of (75 clt) wine is less than 2.46 YTL, (approx. US\$ 1.82) the new fixed tax will be applied. This could translate into a 70 – 100% increase in the cost of all wines both domestic and imported. It appears that Turkish authorities intend to prevent the sale of low priced, low quality wines and to stop invoicing irregularities for imports in order to avoid import taxes.

The following table shows taxes and charges that would affect the cost of imported wine:

A. CIF value	US\$ 10.00
B. Import duty- 70 % for US wines- (10x1.7)	US\$ 17.00
C. Consumption Tax 63.3%- (17x1.633)	US\$ 27.70
D. Customs clearance and other fees 10% (27.76x1.10)	US\$ 30.47

In addition to import duties and taxes, there are additional costs like storage, distribution and importer markup. Luxury hotels tend to put about 200 to 300 percent mark up on imported wine. Even though supermarkets markups are much less, they tend to charge high shelving fees, up to \$2000 per SKU and tend to pay suppliers in 60 to 90 days.

Retail, Restaurant and Hotel Sectors

The retail and restaurant sectors are the primary means of distribution for imported wines. Due to changes in Turkish regulations, foreign wines are now marketed in supermarkets, wine stores and small retail/specialty stores. Retail outlets prefer lower cost wines (\$5 - \$10/bottle) for faster turnover. Hotel and restaurants often prefer higher priced wines (\$8 - \$15/bottle). In addition to retail and restaurants, a significant amount of foreign wines is sold in duty free shops or is brought into Turkey by travelers, who are now permitted to purchase up to six bottles of wine.

Supermarkets are the fastest growing retail sector in Turkey and now account for 42% of the \$23 billion of retail sales in the entire sector. Local chains like Migros, Gima, and Tansas as well as international chains like Carrefour, Metro and Tesco are all increasing the number of stores in a more competitive market.

The Turkish Hotel, Restaurant and Institutional (HRI) sector accounted for \$9.1 billion in sales revenues in 2004. About 25 percent of its revenues are derived from food and beverage sales. There are over 450 four and five star hotels in Turkey. Turkey has an ambitious plan to increase the number of luxury hotels and resorts by 15 – 20 percent a year during the next five years.

Wine tastings are common and popular in Turkey. Most are held in the major five star hotels. These events are often held in conjunction with ethnic food festivals.

Publications

Articles about local and foreign wine varieties are increasingly appearing in newspapers and food magazines, which cater to wine consumers - mostly educated city dwellers. *GUSTO* is a periodical devoted to wine and food. *Bouquet* (monthly) and *Dionisos* (bimonthly) are also local wine magazines. This has increased consumer awareness of domestic and international wines. In addition, information on the health benefits from wine are also encouraging higher wine consumption. Consumers now have access to foreign wines in supermarkets.

Labeling Requirements

All wine labels must contain the following information:

- The name of the winery,
- The vintage year,
- Color,
- Variety,
- Volume of the bottle and percentage of alcohol,
- Name and percentage of ingredients,
- Importers name and address

Marketing

The best method for new-to-market exporters is to work with an importer, agent or distributor for their product. Currently, the retail market industry does little direct importing. The leading food and beverage show is "Food 2005", scheduled for September 15-18, 2005 in Istanbul. Another show exporters may consider is FABEX, annually scheduled in Antalya, which is in the heart of the large tourist area scheduled for February 24-27, 2005.

Leading Trade Shows**FOOD 2005, September 15-18, 2005**

Organizer: ITF, Ms Tugba Karadeniz

Location: CNR Show Center, Yesilkoy, Istanbul

Phone: 90-212-663 0881

Fax: 90-212-663 0973

e-mail: Tugba.karadeniz@itf-exhibitions.com

web: www.cnrexpo.com

FABEX 2005, February 23-26, 2005

Organizer: ANFAS, Mr. Haldun Tuzel

Location: Antalya Expo Center, Antalya

Phone: 90-242-462 2000

Fax: 90-242-462 1990

e-mail: info@anfas.com.tr

web: www.antalyaexpocenter.com

Contact Information

Please contact FAS Turkey offices for questions, importers list and information on market promotion opportunities.

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